



**UMZIMVUBU**  
— LOCAL MUNICIPALITY —

***ANNUAL FINANCIAL STATEMENTS***

***30 June 2012***

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## **GENERAL INFORMATION**

### **MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 June 2012**

<b>Mayor</b>	<b>Speaker</b>	<b>Chief Whip</b>
KS Pangwa	ZO Sisilana	N Mbele
<b>Members</b>		<b>Portfolio</b>
MV Nkqayi		Infrastructure and Planning
VA Bulana		Community Services
LT Qasha		Corporate Services
Z Ndevu		Budget and Treasury
EN Ngalonkulu - Lebelo		Communications and SPU
N Mpumlwana		Local Economic Development
N Nkula		Exco Member
PK Thingathinga		Exco Member

### **AUDITORS**

Auditor-General  
East London  
Eastern Cape

### **BANKERS**

First National Bank  
Mount Frere

### **REGISTERED OFFICE**

Erf 813 Main Street  
Mount Frere

Private Bag X9020  
Mount Frere  
5090

Tel: (039) 255 0166  
Fax: (039) 255 0167

Webpage: [www.umzimvubu.gov.za](http://www.umzimvubu.gov.za)

### **MUNICIPAL MANAGER**

Mr. G.P.T. Nota

### **CHIEF FINANCIAL OFFICER**

Mr. M. Hloba

## **GENERAL INFORMATION (continued)**

### **LEGAL FORM**

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

### **OBJECTIVES**

The municipality strives, within its financial and administrative capacity, to achieve the following objects:

- to provide democratic and accountable government for local communities
- to ensure the provision of services to communities in a sustainable manner
- to promote social and economic development
- to promote a safe and healthy environment

- to encourage the involvement of communities and community organisations in the matters of local government

### **GRADING**

Grade 3

### **JURISDICTION**

Greater Umzimvubu area which includes:  
Mount Frere, Mount Ayliff  
and  
various rural areas

2011/12

## MEMBERS OF THE UMZIMVUBU LOCAL MUNICIPALITY COUNCILLORS

### WARD

1	FJ Hem
2	AL Mwezula
3	MV Nkqayi
4	MM Mpepanduku
5	M Mpakumpaku
6	X Jona
7	NM Mlenzana
8	M Jojo
9	ZJ Mendu
10	V Nyangane
11	N Gogela
12	ZB Mtebele
13	CT Ndawo
14	BMA Zililo
15	N Sonyabashi
16	SAN Cekeshe
17	S Mankanku
18	NT Xezu
19	N Jijana
20	V Ngabaza
21	FN Ngonyolo
22	CM Ngalonkulu
23	BT Ngqasa
24	MH Kwekwile
25	NA Sobahle
26	NP Ndabeni
27	S Nogcantsi

### PROPORTIONAL

N Nkula
SP Myingwa
EN Ngalonkulu-Lebelo
N Mpumlwana
NE Pakkies
T Mabindisa
MM Gwanya
AZ Gwebani
N Boyce
NO Godlo
LT Qasha
B Mngweba
NP Mlandu
UN Makanda
PK Thingathinga
TA Mambi
F Ntwakumba
ZO Sisilana
N Mbele
KS Phangwa
NN Gcadinja
VA Bulana
N Mpanda
SK Mnukwa
Z Ndevu
B Ripa
NA Matshongo

### APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 83-86 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

  
\_\_\_\_\_  
Mr. G.P.T. Nota  
Municipal Manager

16 November 2012  
Date

**These Financial Statements have been audited**

**UMZIMVUBU LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 JUNE 2012**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**INTRODUCTION**

I give me great pleasure to present the financial position of Umzimvubu Local Municipality at 30 June 2012 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2010/11 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2012 indicates an increase in Net Assets.

**KEY FINANCIAL INDICATORS**

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality. Payments from Debtors does however not appear good.

**Financial Statement Ratios:**

INDICATOR	2012	2011
Surplus / (Deficit) before Appropriations	(918 426)	15 024 735
Surplus / (Deficit) at the end of the Year	245 438 419	246 356 844
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	24.84%	22.63%
Remuneration of Councillors	9.60%	8.14%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	21.37%	16.64%
Impairment Losses	5.68%	6.58%
Repairs and Maintenance	4.04%	3.73%
Interest Paid	0.49%	0.75%
Bulk Purchases	0.00%	0.00%
Contracted Services	0.49%	0.11%
Grants and Subsidies Paid	2.50%	1.55%
General Expenses	27.82%	24.04%
Government Grants (Conditional)	3.17%	15.54%
Current Ratio:		
Creditors Days	30	37
Debtors Days	3	25

**OPERATING RESULTS**

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

The services offered by Umzimvubu Local Municipality can generally be classified as Rates and General and Economic Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2012 are as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
<b>Income:</b>					
Opening surplus / (deficit)	89 259 060	74 234 326	20.24%	-	-
Operating income for the year	135 614 075	154 980 658	(12.50)%	180 641 090	(24.93)%
	224 873 135	229 214 985	(1.89)%	180 641 090	24.49%
<b>Expenditure:</b>					
Operating expenditure for the year	136 532 501	139 955 924	(2.45)%	143 230 205	(4.68)%
Closing surplus / (deficit)	88 340 634	89 259 060	(1.03)%	37 410 884	136.14%
	224 873 135	229 214 984	(1.89)%	180 641 090	24.49%

### 3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	133 807 462	153 199 474	(12.79)%	176 676 055	(24.38)%
Expenditure	128 658 950	139 548 678	(7.80)%	135 734 125	(5.21)%
Surplus / (Deficit)	4 948 512	13 650 796	(63.75)%	40 941 930	(87.91)%
Surplus / (Deficit) as % of total income	3.70%	8.91%		23.17%	

Variance from 2009/10 actual:

To Be analysed and commented on by the CFO

Variance from 2010/11 budget:

To Be analysed and commented on by the CFO

### FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R43 351 818 (2011: R67 092 938). Full details of Assets are disclosed in Notes 9, 10, 11 and Appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R43 351 818 was financed as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Grants and Subsidies	43 351 818	67 092 938	(35.39)%	74 345 914	(41.69)%
	43 351 818	67 092 938	(35.39)%	74 345 914	(41.69)%



Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2012	2011
Grants and Subsidies	100.00%	100.00%

## 5 RECONCILIATION OF BUDGET TO ACTUAL

### 5.1 Operating Budget:

DETAILS	2012	2011
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	37 410 884	98 315 080
Revenue variances	(45 027 015)	(47 105 637)
Expenditure variances:		
Employee Related Costs	3 761 447	14 263 356
Remuneration of Councillors	(1 076 758)	(1 161 748)
Collection Costs	500 000	-
Depreciation and Amortisation	(4 180 816)	(22 821 129)
Impairment Losses	442 190	(8 850 993)
Repairs and Maintenance	(1 350 484)	(1 859 217)
Interest Paid	(645 232)	(1 044 926)
Contracted Services	136 814	(160 256)
Grants and Subsidies Paid	493 673	(94 307)
Government Grants (Conditional)	596 714	(13 119 135)
General Expenses	8 020 157	(953 793)
Loss on disposal of Property, Plant and Equipment	-	(382 561)
Actual surplus before appropriations	(918 426)	15 024 735

DETAILS	2012	2011
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	37 410 884	98 315 080
Executive and Council	1 439 419	4 416 321
Finance and Administration	(20 661 491)	(46 304 923)
Planning and Development	(17 556 890)	(39 897 997)
Community and Social Services	901 767	(1 577 685)
Public Safety	(116 221)	-
Waste Management	(2 335 893)	73 938
Actual surplus before appropriations	(918 426)	15 024 735
	(0)	

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a criptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

#### 4.2 Capital Budget:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Variance actual 2011/12 / 2010/11 R	Budgeted 2011/12 R	Variance actual/ budgeted R
Executive and Council	44 666	322 706	(278 041)	1 057 640	(1 012 974)
Finance and Administration	402 829	584 479	(181 650)	3 309 450	(2 906 621)
Planning and Development	437 817	356 212	81 605	63 472 819	(63 035 002)
Health	-	-	-	-	-
Community and Social Services	5 171 272	2 572 567	2 598 705	60 000	5 111 272
Housing	-	-	-	-	-
Public Safety	-	611 286	(611 286)	275 000	(275 000)
Sport and Recreation	-	2 206 606	(2 208 606)	-	-
Environmental Protection	-	3 649	(3 649)	-	-
Waste Management	-	17 843 873	(17 843 873)	6 171 005	(6 171 005)
Roads and Transport	36 425 038	55 980 691	(19 555 652)	-	36 425 038
Water	-	87 273 295	(87 273 295)	-	-
Electricity	-	35 190 328	(35 190 328)	-	-
Other	-	2 855 458	(2 855 458)	-	-
	<b>42 481 622</b>	<b>205 801 149</b>	<b>(163 319 527)</b>	<b>74 345 914</b>	<b>(31 864 292)</b>

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a short explanation of significant variances of more than 5% from budget, are included in Appendix "E (2)".

#### 6 ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2012 amounted to R245 438 419 (30 June 2011: R246 356 844) and is made up as follows:

Capital Replacement Reserve	5 014 475
Capital Contributions from Government	229 112 890
Accumulated Surplus	<u>11 311 054</u>
	<u><b>245 438 419</b></u>

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The Capital Contributions from Government are utilised to offset the cost of depreciation of assets funded from Government Grants over the lifespan of such assets. Amounts equal to the cost of assets acquired from Government Grants are transferred to the reserve annually.

Refer to Note 17 and the Statement of Change in Net Assets for more detail.

#### 7 LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R936 730 (30 June 2011: R1 255 479).

Refer to Note 15 and Appendix "A" for more detail.

#### 8 NON-CURRENT PROVISIONS

Non-current Provisions amounted R6 126 599 as at 30 June 2012 (30 June 2011: R5 506 018) and is made up as follows:

Provision for Long-term Service	584 098
Provision for Rehabilitation of Land-fill Sites	<u>5 542 501</u>
	<u><b>6 126 599</b></u>

These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 16 for more detail.

## 9 CURRENT LIABILITIES

Current Liabilities amounted R13 101 799 as at 30 June 2012 (30 June 2011: R16 321 431) and is made up as follows:

Creditors	Note 12	11 045 615
Unspent Conditional Grants and Receipts	Note 13	1 737 435
Current Portion of Long-term Liabilities	Note 15	318 749
		<u>13 101 799</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

## 10 PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R213 856 505 as at 30 June 2012 (30 June 2011: R200 452 808).

Refer to Note 9 and Appendices "B, C and E (2)" for more detail.

## INTANGIBLE ASSETS

The net value of Intangible Assets were R895 144 as at 30 June 2012 (30 June 2011: R298 057).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 10 and Appendix "B" for more detail.

## 12 INVESTMENT PROPERTIES

The net value of Investment Properties were R14 286 000 as at 30 June 2012 (30 June 2011: R14 286 000).

Refer to Note 11 and Appendix "B" for more detail.

## 13 CURRENT ASSETS

Current Assets amounted R36 565 897 as at 30 June 2012 (30 June 2011: R54 402 908) and is made up as follows:

Inventory	Note 2	451 017
Non-current Assets Held-for-Sale	Note 3	75 240
Receivables from Exchange Transactions	Note 4	104 968
Receivables from Non-exchange Transactions	Note 5	521 382
VAT Receivable	Note 6	769 944
Bank Balances and Cash	Note 7	34 559 735
Operating Lease Assets	Note 8	83 610
		<u>36 565 897</u>

The decrease in the amount for Current Assets is mainly due to Government Grants raised as a debtor for R13 million due to MIG funds which was only received after 30 June 2011.

Refer to the indicated Notes for more detail.

## 14 INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.


Refer to Notes 13 and 19, and Appendix "F" for more detail.

## **15 EVENTS AFTER THE REPORTING DATE**

Full details of all known events, if any, after the reporting date are disclosed in Note 48.

## **16 EXPRESSION OF APPRECIATION**

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.



CHIEF FINANCIAL OFFICER

16 November 2012

**UMZIMVUBU LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012**

		Actual	
	Note	2012 R	2011 R
<b>ASSETS</b>			
<b>Current Assets</b>		<b>36 565 897</b>	<b>54 402 908</b>
Inventory	2	451 017	354 278
Non-current Assets Held-for-Sale	3	75 240	-
Receivables from Exchange Transactions	4	104 968	628 346
Receivables from Non-exchange Transactions	5	521 382	16 193 321
VAT Receivable	6	769 944	7 365 723
Bank, Cash and Cash Equivalents	7	34 559 735	29 624 537
Operating Lease Assets	8	83 610	236 703
<b>Non-Current Assets</b>		<b>229 037 649</b>	<b>215 036 864</b>
Property, Plant and Equipment	9	213 856 505	200 452 808
Intangible Assets	10	895 144	298 057
Investment Property	11	14 286 000	14 286 000
<b>Total Assets</b>		<b>265 603 546</b>	<b>269 439 772</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>13 101 799</b>	<b>16 321 431</b>
Payables	12	11 045 615	14 013 436
Unspent Conditional Grants and Receipts	13	1 737 435	2 016 582
Current Portion of Long-term Liabilities	15	318 749	291 413
<b>Non-Current Liabilities</b>		<b>7 063 329</b>	<b>6 761 497</b>
Long-term Liabilities	15	936 730	1 255 479
Non-current Provisions	16	6 126 599	5 506 018
<b>Total Liabilities</b>		<b>20 165 128</b>	<b>23 082 928</b>
<b>Total Assets and Liabilities</b>		<b>245 438 419</b>	<b>246 356 844</b>
<b>NET ASSETS</b>		<b>245 438 419</b>	<b>246 356 844</b>
Accumulated Surplus / (Deficit)	17	245 438 419	246 356 844
<b>Total Net Assets</b>		<b>245 438 419</b>	<b>246 356 844</b>

**UMZIMVUBU LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

Budget		Note	Actual	
2 011	2 012		2 012	2 011
R	R		R	R
<b>REVENUE</b>				
<b>Revenue from Non-exchange Transactions</b>				
8 160 000	8 000 000	18	9 114 470	7 367 638
-	817 333		-	-
400 000	819 432		778 265	464 511
4 661 427	2 097 811		2 161 159	2 237 181
1 150 000	1 000 000		1 072 014	1 271 690
133 259 130	136 025 200	19	115 026 234	135 120 145
-	2 200	20	12 200	-
<b>Revenue from Exchange Transactions</b>				
1 300 000	2 600 000	21	2 006 595	1 781 184
1 064 974	1 091 183	22	803 617	965 203
5 000 000	3 538 894	23	2 127 973	3 362 168
-	256 297	23	427 813	984 073
46 290 764	24 012 740	24	2 083 734	1 082 744
300 000	280 000		-	344 123
300 000	280 000		-	344 123
<b>202 086 295</b>	<b>180 641 090</b>	<b>Total Revenue</b>	<b>135 614 075</b>	<b>154 980 658</b>
<b>EXPENDITURE</b>				
45 941 317	37 680 470	25	33 919 023	31 677 961
10 227 345	12 036 693	26	13 113 451	11 389 093
-	500 000		-	-
472 986	25 000 000	27	29 180 816	23 294 115
365 000	8 200 000	28	7 757 810	9 215 993
3 359 264	4 164 991		5 515 476	5 218 481
-	19 000	29	664 232	1 044 926
-	804 000	30	667 186	160 256
2 080 520	3 901 319	31	3 407 646	2 174 827
32 692 882	45 998 732	32	37 978 575	33 646 675
8 631 901	4 925 000	33	4 328 286	21 751 036
-	-		-	382 561
<b>103 771 215</b>	<b>143 230 205</b>	<b>Total Expenditure</b>	<b>136 532 501</b>	<b>139 955 924</b>
<b>98 315 080</b>	<b>37 410 884</b>	<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>(918 426)</b>	<b>15 024 735</b>

Refer to Appendix E(1) for explanation of budget variances

# UMZIMVUBU LOCAL MUNICIPALITY

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 June 2012

	Note	2012 R	Actual 2011 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Property Rates		6 246 353	2 011 552
Grants		114 747 087	127 226 220
Public Contributions and Donations		12 200	0
Service Charges		452 882	100 729
Interest Received		2 555 786	4 346 241
Other Receipts		26 156 462	(13 142 161)
		<b>150 170 770</b>	<b>120 542 581</b>
<b>Payments</b>			
Employee Related Costs		(33 619 213)	(31 275 106)
Remuneration of Councillors		(13 113 451)	(11 389 093)
Interest Paid		(664 232)	(1 044 926)
Suppliers and other payments		(53 878 750)	(62 711 092)
		<b>(101 275 646)</b>	<b>(106 420 217)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>48 895 124</b>	<b>14 122 364</b>
Cash receipts from Ratepayers, Government and Other		147 614 984	116 196 340
Cash paid to Suppliers and Employees		(100 928 109)	(105 375 290)
<b>Cash generated from / (utilised in) Operations</b>	<b>35</b>	<b>46 686 875</b>	<b>10 821 050</b>
Interest received	<b>23</b>	2 555 786	4 346 241
Interest paid	<b>29</b>	(664 232)	(1 044 926)
<b>NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>		<b>48 578 429</b>	<b>14 122 365</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	<b>9</b>	(42 481 621)	(67 264 724)
Purchase of Intangible Assets	<b>10</b>	(870 195)	(231 122)
Proceeds on Disposal of Property, Plant and Equipment			751 986
<b>NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>		<b>(43 351 816)</b>	<b>(66 743 860)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New Loans raised	<b>15</b>		1 833 729
Loans repaid	<b>15</b>	(291 413)	(286 837)
<b>NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>		<b>(291 413)</b>	<b>1 546 892</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7</b>	<b>4 935 198</b>	<b>(51 074 604)</b>
Cash and Cash Equivalents at the beginning of the year		29 624 537	80 699 141
Cash and Cash Equivalents at the end of the year		34 559 735	29 624 537

The Cash Flow Statement was restated from the indirect method to the direct method of accounting.

**UMZIMVUBU LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

**1 BASIS OF PRESENTATION**

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the accounting standards, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Accepted Accounting Principles (GAAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

**1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY**

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework of the accounting standards. Details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effect of the transaction on the entity's financial position, financial performance or cash flow.

**1.2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS**

In the application of the municipality's accounting policies, which are described below, management makes judgements and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other information. These judgements and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are made when the estimate is revised if the revision affects only that period, or in the period of the revision and current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management has made in applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the financial statements:

**1.2.1 Revenue Recognition**

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-Exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue from *Exchange Transactions* and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of revenue is appropriate.

**1.2.2 Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement by management. The classification of financial assets and liabilities is based on the *Financial Assets Classification* and Accounting Policy 6.2 on *Financial Liabilities Classification* described above, as considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.



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#### **1.2 3 Impairment of Financial Assets**

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

##### **Impairment of trade receivables**

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed across all classes of debtors.

#### **1.2 4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment property**

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

#### **1.2 5 Impairment: Write down of Property, Plant and Equipment and Inventories**

Accounting Policy 3.9 on *PPE - Impairment of assets* and Accounting Policy 4.2 on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17: *Property, Plant and Equipment*, GRAP 12: *Inventory* and GRAP 102: *Intangible assets*. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management.

#### **1.2 6 Defined Benefit Plan Liabilities**

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

#### **1.2 7 Provisions and contingent liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes, 20 and 37 respectively. Provisions are discounted where the effect of discounting is material using actuarial valuations.

#### **1.3 PRESENTATION CURRENCY**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

#### **1.4 GOING CONCERN ASSUMPTION**

The Annual Financial Statements have been prepared on a going concern basis.

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**1.5 OFFSETTING**

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

**1.6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005  
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009  
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008  
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007  
GRAP 25 Employee Benefits - issued December 2009  
GRAP 26 Impairment of Cash-generating Assets - issued March 2009  
GRAP 103 Heritage Assets - issued July 2008  
GRAP 104 Financial Instruments - October 2009

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)  
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)  
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)  
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

**2 ACCUMULATED SURPLUS**

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

**2.1 Other Reserves**

The Entity creates and maintains reserves in terms of specific requirements.

**2.1.1 Capital replacement reserve (CRR)**

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In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
  - The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
  - Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
  - If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.
- Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

**2.1 2 Government Grant Reserve**

The Government Grant Reserve equals the carrying value of assets financed from government grants. Depreciation on these are set off against this grant.

**3 PROPERTY, PLANT AND EQUIPMENT**

**3.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**3.2 Subsequent Measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

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Subsequently all property plant and equipment, including for Infrastructure Assets, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### **3.3 Depreciation**

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	<b>Years</b>		<b>Years</b>
<b>Infrastructure</b>		<b>Buildings</b>	<b>25 - 100</b>
Roads and Paving	45 - 50	Mobile offices	5
Gravel Roads	3 - 10	Other	
Electricity	45 - 50	Specialist Vehicles	5 - 20
Water	15 - 100	Other Vehicles	5 - 10
Sewerage	15 - 100	Office Equipment	3 - 7
Landfill Sites	10 - 65	Furniture and Fittings	7 - 10
		Watercraft	15
<b>Community</b>		Bins and Containers	5
Recreational Facilities	15 - 60	Specialised Plant and Equipment	10 - 15
Security	5 - 10	Other items of Plant and Equipment	2 - 5

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

### **3.4 Incomplete Construction Work**

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

### **3.5 Finance Leases**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

### **3.6 Heritage Assets**

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.

Subsequent to measurement, heritage assets are carried at cost less impairment losses.

### **3.7 Land**

Land is not depreciated as it is deemed to have an indefinite useful life.

### **3.8 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

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**3.9 Derecognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

**3.10 Impairment of assets**

**3.10 1 Impairment of Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset."

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at a revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

• to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

**3.10 2 Impairment of Non-Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

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An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

**3.10 3 Impairment of Non-Cash generating assets (continued)**

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:  
to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

**4 INTANGIBLE ASSETS**

**4.1 Initial Recognition**

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given

**4.2 Subsequent Measurement, Amortisation and Impairment**

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

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Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

#### **4.3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **5 INVESTMENT PROPERTY**

#### **5.1 Initial Recognition**

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include a building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties).

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;

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- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting  
• bodies, schools, low income families, etc; and  
• Property held for strategic purposes or service delivery.

**5.2 Subsequent Measurement - Cost Model**

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value

**5.3 Derecognition**

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

**6 FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

**Initial recognition**

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist, and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Fair value methods and assumptions**

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs

**The effective interest rate method**

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**Amortised cost**

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.



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**6.1 Financial Assets - Classification**

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

**6.2 Financial Liabilities - Classification**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 9)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or

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- (ii) Other financial liabilities (Financial liabilities measured at amortised cost)
- (iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

**6.3 Initial and Subsequent Measurement**

**6.3 1 Financial Assets:**

*Held-to-maturity Investments* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

*Loans and Receivables* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

*Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.*

*Available-for-Sale Financial Assets* are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

**6.3 2 Financial Liabilities:**

***Financial liabilities***

Financial liabilities that are measured at fair value through profit or loss are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

**Financial Liabilities held at amortised cost**

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

**Financial guarantee contract**

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Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.

The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

**6.4 Impairment of Financial Assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

**Available-for-sale financial assets**

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

**Financial assets carried at amortised cost**

Accounts receivables encompass long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

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The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**6.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**6.6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

**7 INVESTMENT IN JOINT VENTURES**

A joint venture is a contractual arrangement whereby the Municipality and the other parties undertake an economic activity that is subject to joint control. Interests in jointly controlled entities are stated at cost.

**8 INVENTORIES**

**8.1 Initial Recognition**

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

**8.2 Subsequent Measurement**

**Consumable stores, raw materials, work-in-progress and finished goods**

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Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

**Unsold properties**

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

**9 NON-CURRENT ASSETS HELD-FOR-SALE**

**9.1 Initial Recognition**

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**9.2 Subsequent Measurement**

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit. The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

**10 REVENUE RECOGNITION**

**10.1 General**

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

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The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

**10.2 Revenue from Exchange Transactions**

**10.2 1 Service Charges**

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

**10.2 2 Finance income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

**10.2 3 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

**10.2 4 Income from Agency Services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

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Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

**10.3 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

**11 PROVISIONS**

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

**Environmental rehabilitation provisions**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

**12 EMPLOYEE BENEFITS**

**12.1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

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**12.2 Post employment benefits**

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

**12.2 1 Defined Contribution Plans**

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**12.3 Defined Benefit Plans**

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

**12.3 1 Long-service Allowance**

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

**13 LEASES**

**Lease Classification**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

**13.1 The Municipality as Lessee**

**Finance leases**

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

**Operating leases**



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The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**13.2 The Municipality as Lessor**

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

**13.3 Determining whether an arrangement contains a lease**

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

**14 BORROWING COSTS**

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

**15 GRANTS-IN-AID**

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

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#### **16 VALUE ADDED TAX**

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

#### **17 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

#### **18 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

#### **19 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

#### **20 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

#### **21 RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

#### **22 EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial

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Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

**24 COMPARATIVE INFORMATION**

**24.1 Current year comparatives:**

Budgeted amounts have, in accordance with GRAP 1, been provided in an annexure to these financial statements and forms part of the audited Annual Financial Statements.

**24.2 Prior year comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

**25 CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

**26 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

			2012 R	2011 R
<b>Other Debtors:</b>				
Gross Balances	22 711	21 786	21 590	1 274 990
Less: Provision for Impairment	20 479	20 334	20 284	1 256 248
<b>Net Balances</b>	<b>2 232</b>	<b>1 451</b>	<b>1 306</b>	<b>18 743</b>

As at 30 June Trade Receivables of R 90277 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Trade Receivables:</b>				
Gross Balances	177 546	175 815	8 716 734	9 070 096
Less: Provision for Impairment	165 580	165 179	8 649 080	8 979 819
<b>Net Balances</b>	<b>11 967</b>	<b>10 636</b>	<b>67 674</b>	<b>90 277</b>

As at 30 June 2011

	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Refuse:</b>					
Gross Balances	161 650	159 047	158 086	5 877 982	6 356 765
Less: Provision for Impairment	148 011	147 313	147 180	5 751 814	6 194 318
<b>Net Balances</b>	<b>13 640</b>	<b>11 734</b>	<b>10 905</b>	<b>126 168</b>	<b>162 447</b>
<b>Other Debtors:</b>					
Gross Balances	21 216	71 737	58 179	954 002	1 105 133
Less: Provision for Impairment	17 748	17 697	17 669	586 121	639 235
<b>Net Balances</b>	<b>3 468</b>	<b>54 040</b>	<b>40 510</b>	<b>367 880</b>	<b>465 898</b>

As at 30 June Trade Receivables of R611238 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Trade Receivables:</b>				
Gross Balances	230 784	216 264	6 831 983	7 279 032
Less: Provision for Impairment	165 010	164 849	6 337 935	6 667 794
<b>Net Balances</b>	<b>65 774</b>	<b>51 415</b>	<b>494 048</b>	<b>611 238</b>

#### 4.2 Reconciliation of the Provision for Impairment

Balance at beginning of year	6 833 553	3 626 829
Impairment Losses recognised	2 313 036	3 206 723
<b>Balance at end of year</b>	<b>9 146 588</b>	<b>6 833 553</b>

In determining the recoverability of receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Trade Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

Provision for impairment of Trade Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type.

#### 4.3 Ageing of impaired Trade Receivables from Exchange Transactions

<b>Current:</b>		
0 - 30 Days	166 769	165 759
<b>Past Due:</b>		
31 - 60 Days	165 580	165 010
61 - 90 Days	165 179	164 849
+ 90 Days	8 649 060	6 337 935
<b>Total</b>	<b>9 146 588</b>	<b>6 833 553</b>

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2 011 R	
5 TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS			
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2012			
Assessment Rates Debtors	26 359 954	25 861 633	498 321
Hall Securities	39 020	39 020	-
Sundry Deposits	2 769		2 769
Sundry Debtors	41 158	41 158	-
Interest/Penalty Charges	406 018	385 725	20 293
Total Trade Receivables from Non-exchange Transactions	<u>26 848 918</u>	<u>26 327 536</u>	<u>521 382</u>
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2011			
Assessment Rates Debtors	23 491 837	20 532 224	2 959 613
Payments made in Advance	47 636		47 636
Government Subsidy Claims	13 144 913		13 144 913
Sundry Debtors	41 158	-	41 158
Total Trade Receivables from Non-exchange Transactions	<u>36 725 544</u>	<u>20 532 224</u>	<u>16 193 321</u>

The municipality does not hold deposits or other security for its Other Trade Receivables.

None of the Other Trade Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Other Trade Receivables approximate their fair values.

The fair value of Other Trade Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratio's of Other Debtors were also taken into account for fair value determination.

**5.1 Ageing of Trade Receivables from Non-exchange Transactions**

**As at 30 June 2012**

	Current 0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Assessment Rates:</b>					
Gross Balances	680 466	457 082	450 789	24 771 617	26 359 954
Less: Provision for Impairment	421 476	414 109	411 372	24 614 676	25 861 633
<b>Net Balances</b>	<b>258 990</b>	<b>42 973</b>	<b>39 417</b>	<b>156 941</b>	<b>498 321</b>
<b>Payments made in Advance:</b>					
Gross Balances				39 020	39 020
Less: Provision for Impairment				39 020	39 020
<b>Net Balances</b>	-	-	-	-	-
<b>Sundry Deposits:</b>					
Gross Balances				2 769	2 769
<b>Net Balances</b>	-	-	-	2 769	2 769
<b>Sundry Debtors:</b>					
Gross Balances				41 158	41 158
Less: Provision for Impairment				41 158	41 158
<b>Net Balances</b>	-	-	-	-	-
<b>Interest Charges on Outstanding Debtors</b>					
Gross Balances	60 636	56 176	51 289	237 917	406 018
Less: Provision for Impairment	58 428	53 963	49 306	224 028	385 725
<b>Net Balances</b>	<b>2 208</b>	<b>2 213</b>	<b>1 983</b>	<b>13 889</b>	<b>20 293</b>

As at 30 June Other Trade Receivables of R260185 were past due but not impaired. The age analysis of these Other Trade Receivables are as follows:

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2 011 R
<b>7 BANK, CASH AND CASH EQUIVALENTS</b>		
Bank, Cash and Cash Equivalents	34 559 735	29 624 537
<b>Total Bank, Cash and Cash Equivalents</b>	<b><u>34 559 735</u></b>	<b><u>29 624 537</u></b>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

**7.1 Current Investment Deposits**

Call Deposits	29 365 014	26 356 205
<b>Total Current Investment Deposits</b>	<b><u>29 365 014</u></b>	<b><u>26 356 205</u></b>

The following call deposit accounts for ring fenced purposes as indicated

Planning and Survey	First National	6216 467 6842	404 297	560 739
Service Delivery Reserve	First National	6203 325 4723	449 010	431 817
Operational Investment	First National	6203 945 0715	12 774 070	10 671 702
Municipal Support Program (MSP)	First National	6203 189 8903	1 992 290	1 916 473
Drought Relief	First National	6208 603 6160	403 465	388 016
Municipal Infrastructure Grant (MIG)	First National	6208 603 6714	669 912	472 077
Guarantee Investment	First National	6206 874 2157	237 703	232 289
Capital Replacement Reserve	First National	6206 799 8040	5 436 864	5 228 681
Testing Centre	First National	6209 341 1339	3 339 703	3 211 823
Dedee Projects	First National	6224 528 8411	1 014 575	2 909 383
Financial Management Grant (FMG)	First National	6227 618 7294	1 526 903	45 101
Municipal System Improvement Grant	First National	6227 618 9018	848 953	31 067
Operational Investment	First National	6228 856 0925	267 269	257 035

**7.2 Bank Accounts**

Cash in Bank	5 193 844	3 268 333
<b>Total Bank Accounts</b>	<b><u>5 193 844</u></b>	<b><u>3 268 333</u></b>

The Municipality has the following bank accounts:

**Primary Bank Account**

*First National Bank - Main Street, Mount Frere - Account Number 62022183727*

Cash book balance at beginning of year	3 268 333	2 398 779
Cash book balance at end of year	<u>5 193 844</u>	<u>3 268 333</u>
Bank statement balance at beginning of year	3 268 333	2 253 455
Bank statement balance at end of year	<u>5 168 903</u>	<u>3 268 333</u>

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

**7.3 Cash and Cash Equivalents**

Other Cash Equivalents	877	-
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b><u>877</u></b>	<b><u>-</u></b>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2 011 R
<b>8 OPERATING LEASE ASSETS / RECEIVABLES</b>		
Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:		
Balance at beginning of year	236 703	295 613
Operating Lease Revenue recorded	9 407	13 796
Operating Lease Revenue effected	(162 501)	(72 707)
<b>Total Operating Lease Assets</b>	<b><u>83 610</u></b>	<b><u>236 703</u></b>

**8.1 Leasing Arrangements**

**The Municipality as Lessor:**

Operating Leases relate to Property owned by the municipality with lease terms of between 2 to 10 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

**8.2 Amounts receivable under Operating Leases**

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	221 819	925 175
2 to 5 years	205 203	379 421
More than 5 years	59 599	107 200
<b>Total Operating Lease Arrangements</b>	<b><u>486 621</u></b>	<b><u>1 411 796</u></b>

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**9 PROPERTY, PLANT AND EQUIPMENT**

30 June 2012

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Community	Heritage	Other	Leased	Total
	R	R	R	R	R	R	R
<b>Carrying values at 01 July 2011</b>	<b>53 396 548</b>	<b>85 724 836</b>	<b>53 278 552</b>	<b>17 719</b>	<b>6 526 832</b>	<b>1 508 521</b>	<b>200 452 808</b>
Cost							
- Completed Assets							
- Under Construction							
Accumulated Depreciation:							
- Cost							
- Revaluation							
Acquisitions	(0)	13 701 523	246 785	-	2 824 194	-	16 772 502
Capital under Construction - Additions:	666 615	23 177 182	1 865 323	-	-	-	25 709 118
- Cost							
Increases in Revaluation							
Reversals of Impairment Losses							
Depreciation:							
- Based on Cost	(1 193 582)	(22 025 402)	(2 986 609)	-	(2 365 122)	(336 992)	(28 907 708)
Carrying value of Transfers to Held-for-Sale:					(75 240)	-	(75 240)
- Cost							
- Accumulated Depreciation							
- Based on Cost							
Impairment Losses		(94 976)					(94 976)
Capital under Construction - Completed		(19 276 779)	-	-	-	-	(19 276 779)
<b>Carrying values at 30 June 2012</b>	<b>52 869 581</b>	<b>100 483 182</b>	<b>52 404 050</b>	<b>17 719</b>	<b>6 910 484</b>	<b>1 171 528</b>	<b>213 856 505</b>
Cost							
- Completed Assets							
- Under Construction							
Accumulated Impairment Losses							
Accumulated Depreciation:	(6 542 163)	(15 562 456)	(23 584 949)	-	(6 281 269)	(609 751)	(162 539 330)
- Cost							

**9 PROPERTY, PLANT AND EQUIPMENT (Continued)**

30 June 2011

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Community	Heritage	Other	Leased	Total
	R	R	R	R	R	R	R
<b>Carrying values at 01 July 2010</b>	<b>50 444 278</b>	<b>42 971 916</b>	<b>55 482 331</b>	<b>17 719</b>	<b>8 205 243</b>	<b>-</b>	<b>157 121 486</b>
Cost							
- Completed Assets							
- Under Construction							
Correction of error (Note 39)							
Accumulated Depreciation:							
- Cost							
Acquisitions	-	28 299 613	769 041	-	1 264 447	1 833 729	32 166 830
Capital under Construction - Additions:	4 205 592	30 892 336	-	-	-	-	35 097 927
- Cost							
Additions	4 205 592	30 892 336	-	-	-	-	35 097 927
Depreciation:	(1 190 321)	(16 439 028)	(2 972 820)	-	(2 355 394)	(185 449)	(23 143 012)
- Based on Cost							
Carrying value of Disposals:	(63 000)	-	-	-	(587 664)	(138 780)	(790 424)
- Cost							
- Accumulated Depreciation							
- Based on Cost							
Capital under Construction - Completed	-	-	(316 541)	-	-	-	(316 541)
<b>Carrying values at 30 June 2011</b>	<b>53 396 548</b>	<b>85 724 836</b>	<b>53 278 552</b>	<b>17 719</b>	<b>6 526 832</b>	<b>1 508 521</b>	<b>200 452 808</b>
Cost							
- Completed Assets							
- Under Construction							
Accumulated Depreciation:	(2 343 386)	(13 317 393)	(20 603 340)	-	(3 568 820)	(172 755)	(163 544 694)
- Cost							

**9 PROPERTY, PLANT AND EQUIPMENT (Continued)**

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.



# UMZIMVUBU LOCAL MUNICIPALITY

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## 9 PROPERTY, PLANT AND EQUIPMENT (Continued)

### 9.1 Assets pledged as security

The municipality did not pledge any of its assets as security.

### 9.2 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

There was no change in the estimated useful life of various assets of the municipality for the reporting period.

### 9.3 Land and Buildings carried at Fair Value

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

## 10 INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses

895 144

298 057

The movement in Intangible Assets is reconciled as follows:

	Website Development	Computer Software	Total
<b>Carrying values at 01 July 2011</b>	<b>86 400</b>	<b>211 657</b>	<b>298 057</b>
Cost	86 400	521 782	608 182
Accumulated Amortisation	-	(310 126)	(310 126)
Accumulated Impairment	-	-	-
Acquisitions:	-	870 196	870 196
Purchased	-	870 196	870 196
Internally Developed	-	-	-
Work-in-Progress at Year-end	-	-	-
Amortisation:	-	(273 108)	(273 108)
Purchased	-	(273 108)	(273 108)
Internally Developed	-	-	-
<b>Carrying values at 30 June 2012</b>	<b>86 400</b>	<b>808 744</b>	<b>895 144</b>
Cost	86 400	1 391 978	1 478 378
Accumulated Revaluation	-	-	-
Accumulated Amortisation	-	(583 234)	(583 234)
Accumulated Impairment Losses	-	-	-
	Website Development	Computer Software	Total
<b>Carrying values at 01 July 2010</b>	<b>-</b>	<b>218 071</b>	<b>218 071</b>
Cost	-	377 060	377 060
Accumulated Amortisation	-	(158 989)	(158 989)
Accumulated Impairment	-	-	-
Acquisitions:	-	144 722	144 722
Purchased	-	144 722	144 722
Internally Developed	-	-	-
Work-in-Progress at Year-end	86 400	-	86 400
Amortisation:	-	(151 136)	(151 136)
Purchased	-	(151 136)	(151 136)
Internally Developed	-	-	-
<b>Carrying values at 30 June 2011</b>	<b>86 400</b>	<b>211 657</b>	<b>298 057</b>
Cost	86 400	521 782	608 182
Accumulated Amortisation	-	(310 126)	(310 126)
Accumulated Impairment Losses	-	-	-

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance.

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

Amortisation is charged on a straight-line basis over the Intangible Assets' useful lives.

Computer Software are issued under license and are restricted to the conditions under which each license are issued.

Refer to Appendix "B" for more detail on Intangible Assets.

# UMZIMVUBU LOCAL MUNICIPALITY

2012 R	2 011 R
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## 10.1 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

## 11 INVESTMENT PROPERTY

At Cost less Accumulated Depreciation

14 286 000	14 286 000
------------	------------

The movement in Investment Property is reconciled as follows:

Carrying values at 1 July

14 286 000	14 286 000
------------	------------

Cost

14 286 000	14 286 000
------------	------------

Carrying values at 30 June

14 286 000	14 286 000
------------	------------

Cost

14 286 000	14 286 000
------------	------------

Estimated Fair Value of Investment Property at 30 June

14 286 000	14 286 000
------------	------------

The investment property consists out of land only and therefore there is no depreciation.

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

### 11.1 Investment Property carried at Fair Value

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

### 11.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

## 12 CREDITORS

Trade Creditors

7 404 059	11 043 426
-----------	------------

Payments received in Advance

973 484	481 528
---------	---------

Retentions

348 968	114 725
---------	---------

Long Services Awards (Short term)

134 107	110 794
---------	---------

Sundry Deposits

40 535	34 087
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Rental Deposits

22 703	22 703
--------	--------

Other Creditors

10 966	235
--------	-----

Accrued leave

2 055 302	1 916 021
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Value Added Tax (Output)

55 491	289 917
--------	---------

Total Creditors

11 045 615	14 013 436
------------	------------

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

10 783 755	13 994 732
------------	------------

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

261 860	18 703
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The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2011 R
<b>13 UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>		
<b>13.1 Conditional Grants from Government</b>	<b>1 737 435</b>	<b>2 016 582</b>
National Government Grants	1 216 706	8 608
Provincial Government Grants	520 729	2 007 974
<b>Total Conditional Grants and Receipts</b>	<b>1 737 435</b>	<b>2 016 582</b>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 19 for the reconciliation of Grants from Government. The Unspent Grants are cashbacked by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

## 14 OPERATING LEASE LIABILITIES / PAYABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. No liability existed at 30 June as none of the contracts has any escalation clauses.

### 14.1 Leasing Arrangements

#### The Municipality as Lessee:

Operating Leases relate to Equipment with lease terms not longer than 5 years, with no option to extend for a further period. Non of the operating lease contracts contain escalation clauses. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

### 14.2 Amounts payable under Operating Leases

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Photocopiers which fall due as follows:

<b>Other Equipment:</b>	<b>433 322</b>	<b>1 052 308</b>
Up to 1 year	264 915	513 945
2 to 5 years	168 407	538 363
More than 5 years	-	-
<b>Total Operating Lease Arrangements</b>	<b>433 322</b>	<b>1 052 308</b>

The municipality has operating lease agreements for the following classes of equipment, which are only significant collectively:

- Office Equipment

## 15 LONG-TERM LIABILITIES

Finance Lease Liabilities	1 255 479	1 546 892
Sub-total	1 255 479	1 546 892
Less: Current Portion transferred to Current Liabilities:-	318 749	291 413
Finance Lease Liabilities	318 749	291 413
<b>Total Long-term Liabilities (Neither past due, nor impaired)</b>	<b>936 730</b>	<b>1 255 479</b>

### 15.1 Summary of Arrangements

Finance Lease Liabilities relates to Vehicles with lease terms starting during the 2010/11 financial year for a period of 5 years. The effective interest rate is prime rate which was 9% since the inception of the agreements. Capitalised Lease Liabilities are secured over the items of vehicles leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

# UMZIMVUBU LOCAL MUNICIPALITY

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## 15.2 Obligations under Finance Lease Liabilities

### The Municipality as Lessee:

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 5 years. The effective interest rate on Finance Leases is linked to the prime bank rate which was 9% since inception of the agreements.

The municipality does not have an option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2012 R	2011 R	2012 R	2011 R
<b>Amounts payable under finance leases:</b>				
Within one year	418 807	418 807	318 749	291 413
In the second to fifth years, inclusive	1 049 871	1 468 678	936 730	1 255 479
Over five years	-	-	-	-
	<u>1 468 678</u>	<u>1 887 485</u>	<u>1 255 479</u>	<u>1 546 892</u>
Less: Future Finance Obligations	213 199	340 593		
<b>Present Value of Minimum Lease Obligations</b>	<u><b>1 255 479</b></u>	<u><b>1 546 892</b></u>	<u><b>1 255 479</b></u>	<u><b>1 546 892</b></u>
Less: Amounts due for settlement within 12 months (Current Portion)			(318 749)	(291 413)
<b>Finance Lease Obligations due for settlement after 12 months (Non-current Portion)</b>			<u><b>936 730</b></u>	<u><b>1 255 479</b></u>

The municipality has finance lease agreements for the following significant classes of assets:

- Vehicles

Included in these classes are the following significant leases:

(i) Vehicles	9	9
- Installments are payable monthly in arrears		
- Average period outstanding	60 months	60 months
- Average effective interest rate, based on prime	9.00%	9.00%
- Average monthly installment	R 41 880.70	R 41 880.70

## 15.3 Breach of Loan Agreement

The municipality did not default on any payment of its Long-term Liabilities. No terms for payment have been re-negotiated by the municipality.

## 16 NON-CURRENT PROVISIONS

Provision for Long Service Awards	137 216	584 098	446 882
Provision for Rehabilitation of Land-fill Sites	483 365	5 542 501	5 059 136
<b>Total Non-current Provisions</b>		<u><b>6 126 599</b></u>	<u><b>5 506 018</b></u>

The movement in Non-current Provisions are reconciled as follows:

	Long-service Awards R	Land-fill Sites R
<b>30 June 2012</b>		
Balance at beginning of year	557 676	5 059 136
Contributions to provision	181 134	483 365
Expenditure incurred	(70 340)	-
Reduction due to re-measurement	49 735	-
	<u>718 205</u>	<u>5 542 501</u>
Transfer to current provisions	(134 107)	-
<b>Balance at end of year</b>	<u><b>584 098</b></u>	<u><b>5 542 501</b></u>

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2011 R
	Long-service Awards R	Land-fill Sites R
<b>30 June 2011</b>		
Balance at beginning of year	403 770	4 617 926
Contributions to provision	175 024	-
Increase due to discounting	-	441 210
Reduction due to re-measurement	(21 118)	-
	<u>557 676</u>	<u>5 059 136</u>
Transfer to current provisions	(110 794)	-
<b>Balance at end of year</b>	<u><b>446 882</b></u>	<u><b>5 059 136</b></u>

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 5.54 million to restore the sites at the end of its useful lives, estimated to be between 16 and 19 years. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

## 16.1 Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in future, based on an actuarial valuation performed.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end 119 employees were eligible for Long-services Awards.

The Current-service Cost for the year ending 30 June 2012 is estimated to be R141506, whereas the cost for the ensuing year is estimated to be R171 866 (2011: R133628).

	2012 R	2011 R
<b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b>		
Discount Rate	6.42%	9.08%
Cost Inflation Rate	6.24%	5.41%
Net Effective Discount Rate	0.17%	2.51%
Expected Return on Plan Assets	6.24%	6.41%
Expected Rate of Salary Increase	6.24%	6.41%
Expected Retirement Age - Females	58	58
Expected Retirement Age - Males	58	58
<b>Movements in the present value of the Defined Benefit Obligation were as follows:</b>		
Balance at the beginning of the year	557 676	506 297
Current service costs	141 506	133 628
Interest cost	39 628	41 396
Benefits paid	(70 340)	(102 527)
Actuarial losses / (gains)	-	(21 118)
<b>Present Value of Fund Obligation at the end of the Year</b>	<u><b>668 470</b></u>	<u><b>557 676</b></u>
Actuarial losses / (gains) unrecognised	49 735	-
<b>Total Recognised Benefit Liability</b>	<u><b>718 205</b></u>	<u><b>557 676</b></u>
<b>Total Benefit Liability</b>	<u><b>718 205</b></u>	<u><b>557 676</b></u>
<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>		
Current service cost	141 506	133 628
Interest cost	39 628	41 396
<b>Expense included in Employee Related and Finance Cost</b>	<u><b>181 134</b></u>	<u><b>175 024</b></u>

The history of experienced adjustments is as follows:

	2012 R	2011 R	2010 R	2009 R	2008 R
Present Value of Defined Benefit Obligation	718 205	557 676	506 297	374 571	-

# UMZIMVUBU LOCAL MUNICIPALITY

2012  
R

2 011  
R

## 16.2 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 5.542501 million to restore the sites at the end of its useful lives, estimated to be between 16 and 19 years. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

## 17 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Capital Replacement Reserve (CRR)	5 014 475	5 014 475
Capital Contributions from Government	229 112 890	215 036 864
Accumulated Surplus / (Deficit) due to the results of Operations	11 311 054	26 305 505
<b>Total Accumulated Surplus</b>	<b>245 438 419</b>	<b>246 356 844</b>

Accumulated Surplus has been restated to correctly classify amounts held by the municipality as indicated below. Refer to Note 34 on 'Correction of Errors' for details of the restatements.

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

The **Capital Contributions from Government** equals the carrying value of the items of property, plant and equipment financed from government grants. The Government Contributions ensures consumer equity and is not backed by cash.

## 18 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2012 R000's	July 2011 R000's		
Residential	284 190 000	260 980 500	3 605 355	3 466 978
Commercial	271 431 000	245 779 500	3 819 779	2 704 546
State	276 981 008	108 698 500	1 689 336	1 196 113
<b>Total Property Rates</b>	<b>832 602 008</b>	<b>615 458 500</b>	<b>9 114 470</b>	<b>7 367 638</b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2009.

Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0,8427 c/R (2010/11: 1,1 c/R)

Business Properties: 1,6854 c/R (2010/11: 1,3 c/R)

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

## 19 GOVERNMENT GRANTS AND SUBSIDIES

National Equitable Share	92 326 000	71 442 307
Other Subsidies	150 000	3 500 000
<b>Operational Grants</b>	<b>92 476 000</b>	<b>74 942 307</b>
<b>Conditional Grants</b>	<b>22 550 234</b>	<b>60 177 838</b>
National: Equitable Share	-	-
National: FMG	1 456 518	1 016 304
National: MIG	18 005 133	35 403 053
National: MSIG	665 072	1 665 001
National: Public Works	436 266	-
National: Minerals and Energy	-	20 000 000
Provincial: DEAT	1 987 245	2 093 481
<b>Total Government Grants and Subsidies</b>	<b>115 026 234</b>	<b>135 120 145</b>
Attributable to:		
Continuing Operations	115 026 234	135 120 145
	<b>115 026 234</b>	<b>135 120 145</b>

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2011 R
<b>Operational Grants:</b>		
<b>19.1 National: Equitable Share</b>	<u>92 326 000</u>	<u>71 442 307</u>
In terms of the Constitution, part of this grant is used to subsidise the provision of basic services to indigent community members on application. Households where the total gross monthly income of all occupants over 18 years of age does not exceed the earning of a combined gross income equivalent to or less than two times the Government pension grant as prescribed by the National Department of Social Development, qualify for a subsidy of the essential services package		
<b>19.2 National: Municipal Election Support</b>	<u>-</u>	<u>3 500 000</u>
The Municipality received an amount of R3 500 000 from the Department of Local Government, Housing and Traditional Affairs for the funding of operations and preparations necessary with the Municipal Election held in May 2011		
<b>19.3 National: Community Based Planning</b>	<u>150 000</u>	<u>-</u>
The Municipality received an amount of R150 000 from the Department of Cooperative Government and Traditional Affairs for assistance in the data collection of community needs to be used as basis for future planning.		
<b>Conditional Grants:</b>		
<b>19.4 National: FMG Grant</b>		
Balance unspent at beginning of year	6 518	(177 178)
Current year receipts	1 450 000	1 200 000
Conditions met - transferred to Revenue	(1 456 518)	(1 016 304)
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>0</u>	<u>6 518</u>
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.		
<b>19.5 National: MIG Funds</b>		
Balance unspent at beginning of year	(13 144 913)	5 319 140
Current year receipts	31 157 000	16 939 000
Conditions met - transferred to Revenue	(18 005 133)	(35 403 053)
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>6 954</u>	<u>(13 144 913)</u>
The Municipal Infrastructure Grant (MIG) was allocated for mainly the construction of roads. No funds have been withheld.		
The MIG Grant was overspend at 30 June 2011 due to National Treasury changed the time of payment from the National Government Financial Year to the Municipal Financial Year, i.e. from March 2011 to June 2011. The R13 144 913 was shown as a debtor "Government Grants and Subsidies"		
<b>19.6 National: MSIG Funds</b>		
Balance unspent at beginning of year	2 090	667 091
Current year receipts	790 000	1 000 000
Conditions met - transferred to Revenue	(665 072)	(1 665 001)
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>127 018</u>	<u>2 090</u>
The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.		
<b>19.7 National: Department Public Works</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1 519 000	-
Conditions met - transferred to Revenue	(436 266)	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>1 082 734</u>	<u>-</u>
This grant was used for the operation and maintenance of sewerage and water schemes transferred from DWAF to the municipality, the refurbishment of water infrastructure and the payment of salaries of staff transferred from DWAF. No funds have been withheld.		

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2 011 R
<b>19.8 National: Department Minerals and Energy (DME)</b>		
Balance unspent at beginning of year	-	-
Current year receipts	-	20 000 000
Conditions met - transferred to Revenue	-	(20 000 000)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-

The grant was received from the Department of Mineral and Energy to be paid to Eskom for the upgrading of electrical installations within the greater municipal area. Eskom is the Electricity Service Provider in the area.

## 19.9 Provincial: Department Economic Affairs and Trade (DEAT)

Balance unspent at beginning of year	2 007 974	4 101 454
Current year receipts	500 000	-
Conditions met - transferred to Revenue	(1 987 245)	(2 093 481)
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>520 729</u>	<u>2 007 974</u>

This grant was received to assist in local economic development and the promotion of tourism. No funds have been withheld.

## 20 PUBLIC CONTRIBUTIONS AND DONATIONS

Conditional Contributions:	-	-
Unconditional Contributions	10 000	-
Other Donations	2 200	-
<b>Total Public Contributions and Donations</b>	<u>12 200</u>	<u>-</u>

## 21 SERVICE CHARGES

Refuse Removal	2 006 595	1 781 184
<b>Total Service Charges</b>	<u>2 006 595</u>	<u>1 781 184</u>

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

## 22 RENTAL OF FACILITIES AND EQUIPMENT

Operating Lease Rental Revenue:		
- Other Rental Revenue	-	831 052
Rental Revenue from Amenities	13 242	-
Rental Revenue from Buildings	716 446	(0)
Rental Revenue from Halls	73 929	132 834
Rental Revenue from Land	-	1 316
<b>Total Rental of Facilities and Equipment</b>	<u>803 617</u>	<u>965 203</u>

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

## 23 INTEREST EARNED

<b>External Investments:</b>		
Bank Account	82 962	-
Investments	2 045 011	3 362 168
	<u>2 127 973</u>	<u>3 362 168</u>
<b>Outstanding Debtors:</b>		
Outstanding Billing Debtors	427 813	984 073
	<u>427 813</u>	<u>984 073</u>
<b>Total Interest Earned</b>	<u>2 555 785</u>	<u>4 346 241</u>

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Available-for-Sale Financial Assets	2 127 973	3 362 168
Loans and Receivables	427 813	984 073
	<u>2 555 785</u>	<u>4 346 241</u>



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	2012 R	2011 R
<b>24 OTHER REVENUE</b>		
Awards	500 000	-
Pound Fees	455 842	331 755
Electricity (Office Rental)	293 842	-
Clearance Certificate	53	-
Advertising	150 785	60 695
Building Plan Fees	140 348	72 717
Funeral Plot Fees	10 385	8 029
Parking Meters	-	2 162
LG Seta	269 217	51 669
Sales: Wood	682	146
Tender Fees	244 614	249 817
Tourism	439	-
Other Income	-	291 887
Insurance Claims	-	13 866
Rezoning Certificate	833	-
Flea Market	193	-
Cleaning: Builder Ruble	18	-
Instructors Certificate	345	-
Towing Fees	15 351	-
SG Diagrams	790	-
<b>Total Other Revenue</b>	<b>2 083 734</b>	<b>1 082 744</b>

*Other Revenue* have been restated to correctly classify revenue to be included in the category of Other Revenue. Refer to Note 39.1 on "Correction of Error" for details of the restatement.

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 18 to 23, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

## 25 EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	22 738 103	22 677 541
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	5 704 162	3 819 799
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	3 669 717	3 974 509
Housing Benefits and Allowances	1 489 611	1 206 112
Performance Bonuses	317 429	-
<b>Total Employee Related Costs</b>	<b>33 919 023</b>	<b>31 677 961</b>

No advances were made to employees.

### Remuneration of Section 57 Employees:

#### *Remuneration of the Municipal Manager*

Annual Remuneration	771 629	617 939
Performance Bonus	66 547	-
Car and Other Allowances	311 929	231 716
Company Contributions to UIF, Medical and Pension Funds	11 403	10 084
<b>Total</b>	<b>1 161 508</b>	<b>859 739</b>

#### *Remuneration of the Chief Financial Officer*

Annual Remuneration	560 000	465 775
Performance Bonus	28 663	-
Car and Other Allowances	257 360	196 714
Company Contributions to UIF, Medical and Pension Funds	-	8 440
<b>Total</b>	<b>846 023</b>	<b>670 929</b>

#### *Remuneration of the Manager: Community Services*

Annual Remuneration	506 708	465 772
Car and Other Allowances	272 284	246 172
Company Contributions to UIF, Medical and Pension Funds	-	8 174
<b>Total</b>	<b>779 003</b>	<b>720 118</b>

#### *Remuneration of the Manager: Corporate Services*

Annual Remuneration	533 313	465 773
Performance Bonus	35 829	50 034
Car and Other Allowances	246 352	220 586
Company Contributions to UIF, Medical and Pension Funds	-	8 924
<b>Total</b>	<b>815 494</b>	<b>745 316</b>

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	2012 R	2 011 R
<b>Remuneration of the Manager: Local Economic Development</b>		
Annual Remuneration	85 653	465 772
Performance Bonus		-
Car and Other Allowances	15 879	253 486
Company Contributions to UIF, Medical and Pension Funds		8 392
<b>Total</b>	<b>101 533</b>	<b>727 649</b>
<b>Remuneration of the Manager: Infrastructure and Planning</b>		
Annual Remuneration	508 206	465 772
Performance Bonus	14 331	30 300
Car and Other Allowances	294 563	246 172
Company Contributions to UIF, Medical and Pension Funds		8 627
<b>Total</b>	<b>817 100</b>	<b>750 871</b>
<b>Remuneration of the Manager: Chief Operations Officer</b>		
Annual Remuneration	562 496	465 775
Performance Bonus	7 166	-
Car and Other Allowances	214 314	205 273
Company Contributions to UIF, Medical and Pension Funds		8 046
<b>Total</b>	<b>783 976</b>	<b>679 095</b>

No compensation was payable to key management personnel in terms of IAS 19 as at 30 June.

## 26 REMUNERATION OF COUNCILLORS

Mayor	611 895	564 011
Speaker	346 445	443 056
Executive Committee Members	3 300 956	2 599 432
Councillors	8 421 588	7 509 467
Other Allowances (Cellular Phones, Housing, Transport, etc)	432 568	273 127
<b>Total Councillors' Remuneration</b>	<b>13 113 451</b>	<b>11 389 093</b>

For details per Councillor see Annexure G

### In-kind Benefits

Councillors may utilise official Council transportation when engaged in official duties.

The Mayor had the use of a residence of which Council paid the monthly rental.

The Mayor had an official office and car.

## 27 DEPRECIATION AND AMORTISATION

Depreciation: Property, Plant and Equipment	28 907 708	23 142 979
Amortisation: Intangible Assets	273 108	151 136
<b>Total Depreciation and Amortisation</b>	<b>29 180 816</b>	<b>23 294 115</b>

## 28 IMPAIRMENT LOSSES

### 28.1 Impairment Losses on Fixed Assets

<b>Impairment Losses Recognised:</b>	94 976	139 760
Property, Plant and Equipment	94 976	139 760
	<b>94 976</b>	<b>139 760</b>

### 28.2 Impairment Losses on Financial Assets

<b>Impairment Losses Recognised:</b>	7 662 834	9 076 234
Consumer Debtors	2 313 036	3 206 723
Other Debtors	5 795 312	6 508 745
Minus impairment of VAT Debtors (Not an expense to entity)	(445 514)	(639 235)
	<b>7 662 834</b>	<b>9 076 234</b>
<b>Total Impairment Losses</b>	<b>7 757 810</b>	<b>9 215 993</b>

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2011 R
<b>29 FINANCE COSTS</b>		
The municipality did not incur any Finance Cost.		
Bank Overdraft	-	-
Creditors Overdue	13 845	559 952
Finance Leases	127 394	77 727
Provisions - Landfill /LS Awards	522 993	407 246
<b>Total Interest Paid on External Borrowings</b>	<b>664 232</b>	<b>1 044 926</b>
<b>30 CONTRACTED SERVICES</b>		
Internal Audit	667 186	160 256
<b>Total Contracted Services</b>	<b>667 186</b>	<b>160 256</b>
<i>Contracted Services</i> have been restated to correctly classify expenditure previously included in General Expenditure.		
Refer to Note 34 on Correction of Error for details of the restatement.		
<b>31 GRANTS AND SUBSIDIES PAID</b>		
Indigent Support	479 384	622 913
Free Basic Services	931 962	1 551 073
Fencing	1 961 500	-
Pauper Burials	-	841
	34 800	-
<b>Total Grants and Subsidies</b>	<b>3 407 646</b>	<b>2 174 827</b>
Furthermore, <i>Grants and Subsidies Paid</i> have been restated to correctly classify expenditure incurred for Grants and Subsidies Paid, previously included in General Expenses.		
Refer to Note 34 on Correction of Error for details of the restatement.		
<b>Free Basic Services</b> and <b>Indigent Support</b> are in respect of providing basic service levels to indigent households.		
<b>Pauper Burials</b> is paid to assist indigent community members in paying for burial services.		
<b>32 GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
Cleaning Services	860 003	744 667
Extention 3 Mount Ayliff	123 395	-
Performance Management System	-	19 775
Subsistence and Travelling	108 634	2 973 885
Subsistence and Travelling	3 638 497	-
Uniforms & Protective Clothing	255 337	667 141
Audit Fees	3 281 834	2 411 513
Advertising Fees	573 350	448 677
Ammunition	280	155 767
Bank Charges	242 501	169 871
Books & Publications	51 403	70 137
Branding & Marketing	438 227	402 533
Bursaries (Scarce Skills)	194 838	162 202
Bursaries (Internal)	234 230	-
Career Exhibition	172 724	-
Catering	5 831	537 293
Catering	573 575	-
Communication Strategy	78 717	-
Community Radio Support	-	234 811
Conference Fees	71 183	203 858
Employment Equity Programmes	49 850	-
Employee Relations Programmes	43 713	-
Consultant & Professional Fees	2 086 253	3 228 926
Consumeables & Beverages	-	38 611
Consumables & Beverages	38 798	-
Customer Care	57 306	2 933
Disaster Management Plan	92 413	185 360
EAP	-	27 400
Electricity and Water Purchases	697 730	361 558
Entertainment	85 676	1 018 844

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2 011 R
Events & Programs	1 148 703	288 073
Outreach Program	251 803	-
Food for Waste	736 267	-
Gazetting Bylaws Project	-	29 675
Health and Safety	-	23 724
ICT Licensing	-	51 338
HIV/AIDS	38 526	174 056
Intergovernmental Relations (IGR)	131 880	13 651
Induction Program	5 820	-
Insurance: External	712 547	769 548
Internal Audit Committee	839 512	951 175
Legal Fees	749 281	633 366
Material & Stores	32 444	19 138
Membership fees	48 422	308 506
Payday Licencing and Support	-	28 901
Policy Roll out Programme	-	24 128
Office Rental	-	114 948
ICT Licensing (Bulk)	318 132	(117 294)
Postage	3 730	1 424
Pound Fees	-	36 305
Printing & Stationery	1 001 094	913 217
Promotional Material	191 575	654 291
Induction Programme	-	1 439
Speed Enforcement	-	60 149
Integrated Development Plan (IDP)	-	186 954
Agrarian Reform	1 103 368	306 831
Recruitment Activities	89 188	225 160
Environmental Management	262 565	412 105
Investment Promotion	164 773	181 974
SMME Development	110 728	642 857
SMME External	91 836	-
Forestry Development	195 360	242 498
Public Safety	397 631	101 630
Human Resources	-	14 561
Ratapayers Incentive	-	900
Refuse Bags & Bins	496 000	727 155
Security Costs	2 761 141	1 848 566
Small Towns Revitalisation	223 086	-
SPU Programs	539 238	473 652
Strategic Planning	608 492	167 932
Strategic Support and Ind	817 041	-
Sundry Expenses	190	1 422
Survey and Planning	294 043	(6 508)
System Rental	-	11 075
Telephone	2 417 660	2 541 131
Training External	1 119 492	844 061
Fual & Oil	1 276 442	852 104
Fleet Rental Services	-	729 747
Fleet Rental Services	467 950	-
Ward Committees	1 344 123	341 762
Equipment Rental	308 554	305 380
Medicine for Pound	-	12 859
Drivers Licence Cards	-	71 295
Translation of Policies	-	69 193
Year End Function	147 986	131 448
Financial Systems	17 666	552 392
Tourism	198 217	565 494
Community raido support	79 668	-
Annual Report	168 000	240 927
ICT Infrastructure	192 341	414 924
ICT Support	113 163	-
Community Facilities	-	325 096
Sports, Arts and Culture	274 459	-
Waste Management	0	1 064 577
Bandibanise : Formalization	200 768	-
Urban Renewal	267 972	-
IDP Out Reach	183 785	-
Strategic Planning	89 859	-
Batho Pele Programmes	177 303	-
Building Control Awareness	248 000	-
Impact Assessment	25 100	-
Pound Fees	27 292	-
Performance Management System	54 488	-

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	2012 R	2011 R
Training External	2 875	-
Tourism	2 075	-
Public Safety	12 630	-
Ratepayers Incentive	140 000	-
<b>Total General Expenses</b>	<b>37 978 575</b>	<b>33 646 675</b>

General Expenses have been restated to correctly classify expenditure incurred for Contracted Services and Grants and Subsidies Paid.

Refer to Note 34 on Correction of Error for details of the restatement.

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

No extra-ordinary expenses were incurred.

## 33 Government Grants (Conditional)

The following operating expenditure were financed by the grants as indicated:

Municipal Systems Improvement Grant (MSIG)	763 728	1 582 335
Financial Management Grant (FMG)	1 500 723	932 361
Municipal Infrastructure Grant (MIG/PMU)	-	19 186
Electrification (DME)	-	17 354 028
Department Education and Training (DEAT)	1 627 570	1 863 126
Extended Public Works Program (EPWP)	436 266	-
	<b>4 328 286</b>	<b>21 751 036</b>

The MSIG is used for capacity building of Councillors, Ward Committee seating allowance and Implementation of the MPRA

The FMG is used for salaries of the financial interns, staff capacitation and the improvement of systems.

The MIG amount is operational cost re the Project Management Unit.

The DME grant was paid over to Eskom who is responsible for the electrification and connections in the area.

The DEAT grant is used for environmental impact assessments and project management.

EPWP grant is utilised for cleaning up operations in the municipal area.

## 34 CORRECTION OF ERROR

34.1 Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 30 June 2010 and 30 June 2011

Appropriations are summarised as follows:

	2011	2010
Receivables from Exchange Transactions	-7 076 859	-
Receivables from Non-exchange Transactions	914 489	632 943
VAT Receivable	7 365 723	-
Operating Lease Assets	-15 565	36 753
Property, Plant and Equipment	-231 351	12 171 763
Payables	8 636	-
Non-current Provisions	-197 864	-827 185
Increase / (Decrease) in Accumulated Surplus Account	<b>767 209</b>	<b>12 014 275</b>

## 34.2 Reclassification of Revenue - 2009/10

	AFS	RESTATED	ADJUSTMENT
Property Rates	10 022 451	10 655 395	-632 943
Fines	144 257	144 257	-
Licences and Permits	3 320 173	3 320 173	-
Income from Agency Services	1 259 837	1 259 837	-
Government Grants and Subsidies Received	79 250 843	79 250 843	-
Service Charges	1 231 001	1 231 001	-
Rental of Facilities and Equipment	1 216 894	1 253 648	-36 753
Interest Earned - External Investments	4 388 311	4 388 311	-
Interest Earned - Outstanding Debtors	1 362 454	1 362 454	-
Other Income	1 409 515	1 409 515	-
	<b>103 605 735</b>	<b>104 275 432</b>	<b>-669 697</b>

Detail : None.

Property Rates

Rates raised on school properties previously not on valuation roll for the 2009/10 financial year.

632 943

632 943

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2012  
R

2 011  
R

## Rental of Facilities and Equipment

The rental agreement with Primedia re advertising signs have not previously been treated as an Operating Lease. Hence no straight-lining of rental has been accounted for.

36 753

36 753

### 34.3 Reclassification of Revenue - 2010/11

	AFS	RESTATED	ADJUSTMENT
Property Rates	6 453 386	7 367 638	-914 252
Fines	464 511	464 511	-
Licences and Permits	6 502	2 237 181	-2 230 679
Income from Agency Services	3 502 369	1 271 690	2 230 679
Government Grants and Subsidies Received	135 120 145	135 120 145	-
Service Charges	1 781 184	1 781 184	-
Rental of Facilities and Equipment	980 768	965 203	15 565
Interest Earned - External Investments	3 362 168	3 362 168	-
Interest Earned - Outstanding Debtors	984 073	984 073	-
Other Income	1 082 744	1 082 744	-
Profit on Sale of Land:-	344 123	344 123	-
	<u>154 081 972</u>	<u>154 980 658</u>	<u>-898 686</u>

#### Detail :

#### Property Rates

Rates raised on school properties previously not on valuation rol for the

914 252

914 252

#### Licences and Permits

Revenue from "Drivers Licenses" previously incorrectly with "Income from Agency Services"

2 230 679

2 230 679

#### Income from Agency Services

Revenue from "Drivers Licenses" previously incorrectly with "Income from Agency Services"

-2 230 679

-2 230 679

#### Rental of Facilities and Equipment

The rental agreement with Primedia re advertising signs have not previously been treated as an Operating Lease. Hence no straight-lining of rental has been accounted for.

15 565

15 565

### 34.4 Reclassification of Expenditure - 2009/10

	AFS	RESTATED	ADJUSTMENT
Employee Related Costs	24 316 814	24 316 814	-
Remuneration of Councillors	9 315 600	9 315 600	-
Depreciation and Amortisation	19 173 767	19 173 767	-
Impairment Losses	7 707 016	7 707 016	-
Repairs and Maintenance	7 568 626	7 568 626	-
Finance Costs	1 087 742	1 914 927	-827 185
Grants and Subsidies Paid	319 641	319 641	-
General Expenses	27 794 526	27 794 526	-
Government Grants (Conditional)	1 502 338	1 502 338	-
	<u>98 786 070</u>	<u>99 613 255</u>	<u>-827 185</u>

#### Detail :

#### Finance Costs

Interest on Provision for the rehabilitation of Landfill Sites recalculated per IGRAP 2

827 185

827 185

### 34.5 Reclassification of Expenditure - 2010/11

	AFS	RESTATED	ADJUSTMENT
Employee Related Costs	31 699 079	31 677 961	21 118
Remuneration of Councillors	11 389 093	11 389 093	-
Depreciation and Amortisation	23 294 149	23 294 115	33
Impairment Losses	9 215 993	9 215 993	-
Repairs and Maintenance	5 234 029	5 218 481	15 548
Finance Costs	634 248	1 044 926	-410 677
Contracted Services	-	160 256	-160 256
Grants and Subsidies Paid	-	2 174 827	-2 174 827
General Expenses	36 154 323	33 646 675	2 507 648
Government Grants (Conditional)	21 820 972	21 751 036	69 936
Loss on Disposal of Property, Plant and Equipment	382 561	382 561	-
	<u>139 824 447</u>	<u>139 955 924</u>	<u>-131 476</u>

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	2012 R	2 011 R
<b>Detail :</b>		
<u>Employee Related Costs</u>		
Long Services Award disclosure was based on estimates and excludes the Actuarial Losses from the final report. The short term portion in the final report were also less.		-21 118
		<u>-21 118</u>
<u>Depreciation and Amortisation</u>		
Depreciation on Landfill Sites written down reversed.		33
		<u>33</u>
<u>Repairs and Maintenance</u>		
Creditors raised manually was duplicated		-112 987
Creditor transactions not part of the final trial balance on which the annual financial statements were done.		97 439
		<u>-15 548</u>
<u>Finance Costs</u>		
Interest on Provision for the rehabilitation of Landfill Sites recalculated per IGRAP 2		407 246
Creditor transactions not part of the final trial balance on which the annual financial statements were done.		3 431
		<u>410 677</u>
<u>Contracted Services</u>		
Internal audit services moved from "General Expenses" to Contracted Services". Service rendered on contract by Price Waterhouse Cooper		160 256
		<u>160 256</u>
<u>Grants and Subsidies Paid</u>		
The following Items was previously incorrectly included with "General Expenses"		
- Indigent Support		622 913
- Free Basic Services		1 551 073
- Pauper Burials		841
		<u>2 174 827</u>
<u>General Expenses</u>		
Creditors raised manually was duplicated		-641 976
The following Items was previously incorrectly included with "General Expenses"		
- Indigent Support		-622 913
- Free Basic Services		-1 551 073
- Pauper Burials		-841
Internal audit services moved from "General Expenses" to Contracted Services". Service rendered on contract by Price Waterhouse Cooper		-160 256
Creditor transactions not part of the final trial balance on which the annual financial statements were done.		469 411
		<u>-2 507 648</u>
<u>Government Grants (Conditional)</u>		
Creditors raised manually was duplicated		-73 641
Creditor transactions not part of the final trial balance on which the annual financial statements were done.		3 705
		<u>-69 936</u>

## 34.6 Reclassification of Statement of Financial Position : 30 June 2010

	AFS	RESTATED	ADJUSTMENT
Inventory	338 465	338 465	-
Receivables from Exchange Transactions	3 533 505	3 533 505	-
Receivables from Non-exchange Transactions	4 147 168	4 780 112	-632 943
Bank, Cash and Cash Equivalents	80 699 141	80 699 141	-
Operating Leases Assets	258 860	295 613	-36 753
Property, Plant and Equipment	145 181 074	157 352 837	-12 171 763
Intangible Assets	218 071	218 071	-
Investment Property	14 286 000	14 286 000	-
Payables	15 239 431	15 239 431	-
Unspent Conditional Grants and Receipts	9 910 507	9 910 507	-
Non-current Provisions	4 194 511	5 021 696	-827 185
	<u>219 317 835</u>	<u>231 332 110</u>	<u>-13 668 645</u>

### Details :

#### Receivables from Non-exchange Transactions

Rates raised on school properties previously not on valuation roll for the 2009/10 financial year.

632 943

632 943

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2 011 R
<u>Operating Lease Assets</u>		
The rental agreement with Primedia re advertising signs have not previously been treated as an Operating Lease. Hence no accounting for an operating lease asset.		36 753
		<u>36 753</u>
<u>Property, Plant and Equipment</u>		
37 Erven was on the Asset Register at R1 per property. These were restated at its fair value.		12 171 763
		<u>12 171 763</u>
<u>Non-current Provisions</u>		
Provision for the rehabilitation of Landfill Sites recalculated per IGRAP 2		827 185
		<u>827 185</u>
<b>34.7 Reclassification of Statement of Financial Position : 30 June 2011</b>		
	<b>AFS</b>	<b>RESTATED</b>
Inventory	354 278	354 278
Receivables from Exchange Transactions	7 705 205	628 346
Receivables from Non-exchange Transactions	14 645 891	15 560 380
VAT Receivable	-	7 365 723
Bank, Cash and Cash Equivalents	29 624 537	29 624 537
Operating Lease Assets	215 515	199 950
Property, Plant and Equipment	188 512 395	188 281 045
Intangible Assets	298 057	298 057
Investment Property	14 286 000	14 286 000
Payables	14 022 074	14 013 439
Unspent Conditional Grants and Receipts	2 016 582	2 016 582
Current Portion of Long-term Liabilities	291 413	291 413
Long-term Liabilities	1 255 479	1 255 479
Non-current Provisions	4 480 969	4 678 833
	<u>233 575 360</u>	<u>234 342 569</u>
		<u>-1 145 667</u>
<b>Details:</b>		
<u>Receivables from Exchange Transactions</u>		
Creditors raised manually was duplicated		9 280
VAT balances was previously netted off and disclosed either as a "Receivable from Exchange Transactions" or a Creditor if the net result was a credit. The Accounting Standards Board has cleared this issue during the last 12 months and in future the VAT Raised on Debtors will form part of Debtors, the credit leg (Output VAT) will be disclosed under Creditors and the VAT Claim Submitted to SARS will be disclosed as "VAT Receivable" as a separate line item on the face of the Statement of Financial Position. The previous years disclosures were adjusted accordingly for the comparative figures to be relevant.		
		6 436 571
Write VAT Debtors down with the impairment calculated at 30 June 2011		639 235
Creditor transactions not part of the final trial balance on which the annual financial statements were done.		-8 228
		<u>7 076 859</u>
<u>Receivables from Non-exchange Transactions</u>		
Rates raised on school properties previously not on valuation rol for the 2010/11 financial year		914 252
A credit amount in debtors was transferred to creditors (Banking Suspence account vote 949 600640)		238
		<u>914 489</u>
<u>VAT Receivable</u>		
VAT balances was previously netted off and disclosed either as a "Receivable from Exchange Transactions" or a Creditor if the net result was a credit. The Accounting Standards Board has cleared this issue during the last 12 months and in future the VAT Raised on Debtors will form part of Debtors, the credit leg (Output VAT) will be disclosed under Creditors and the VAT Claim Submitted to SARS will be disclosed as "VAT Receivable" as a separate line item on the face of the Statement of Financial Position. The previous years disclosures were adjusted accordingly for the comparative figures to be relevant.		
		7 365 723
		<u>7 365 723</u>
<u>Operating Lease Assets</u>		
The rental agreement with Primedia re advertising signs have not previously been treated as an Operating Lease. Hence no straight-lining of rental has been accounted for.		15 565
		<u>15 565</u>
<u>Property, Plant and Equipment</u>		
Value of Landfill Sites based on rehabilitation recalculated per IGRAP 2		-231 384
Write back Accumulated depreciation on portion of Landfill site written back		33
		<u>-231 351</u>



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	2012 R	2 011 R
<b>Payables</b>		
Creditors raised manually was duplicated		-837 865
Long Services Award disclosure was based on estimates and excludes the Actuarial Losses from the final report. The short term portion in the final report were also less.		-43 120
VAT balances was previously netted off and disclosed either as a "Receivable from Exchange Transactions" or a Creditor if the net result was a credit. The Accounting Standards Board has cleared this issue during the last 12 months and in future the VAT Raised on Debtors will form part of Debtors, the credit leg (Output VAT) will be disclosed under Creditors and the VAT Claim Submitted to SARS will be disclosed as "VAT Receivable" as a separate line item on the face of the Statement of Financial Position. The previous years disclosures were adjusted accordingly for the comparative figures to be relevant.		929 152
Write VAT Debtors impairment off against Output VAT Raised at 30 June 2011		-639 235
		289 917
Creditor transactions not part of the final trial balance on which the annual financial statements were done.		582 215
A credit amount in debtors was transferred to creditors (Banking Suspence account vote 949 600640)		238
		-8 636
<b>Non-current Provisions</b>		
Provision for the rehabilitation of Landfill Sites recalculated per IGRAP 2		175 862
Asset value reduced	-231 384	
Interest 2010/11 reversed	-33 965	
Interest 2010/11 recalculated	441 210	
Provision for Long Services Awards		22 002
Actuarial losses excluded 30 June 2011	-21 118	
Short term portion understated at 30 June 2011	43 120	
		197 864

## 34.8 Reclassification of Cash Flow Statement:

### CASH FLOWS FROM OPERATING ACTIVITIES

	AFS	RESTATED	ADJUSTMENT
Receipts	0	2 011 552	(2 011 552)
Property Rates	0	127 226 220	(127 226 220)
Grants	0	0	0
Public Contributions and Donations	0	100 729	(100 729)
Service Charges	0	0	0
Dividends Received	0	0	0
Royalties Received	0	4 346 241	(4 346 241)
Interest Received	0	(13 142 161)	13 142 161
Other Receipts	0	120 542 581	(120 542 581)
Payments	0	(31 275 106)	31 275 106
Employee Related Costs	0	(11 389 093)	11 389 093
Remuneration of Councillors	0	(1 044 926)	1 044 926
Interest Paid	0	(62 711 092)	62 711 092
Suppliers and other payments	0	(106 420 217)	106 420 217
NET CASH FLOWS FROM OPERATING ACTIVITIES	0	14 122 364	(14 122 364)

The Cash Flow Statement was restated from the indirect method to the direct method which excludes the above section.

Cash receipts from Ratepayers, Government and Other (Note 1 below)	117 993 829	116 196 340	1 797 489
Cash paid to Suppliers and Employees (Note 1 below)	-107 626 768	-105 375 290	-2 251 477
Interest received	4 346 241	4 346 241	0
Interest paid	-634 248	-1 044 926	410 678
Purchase of Property, Plant and Equipment	-67 264 757	-67 264 724	-34
Purchase of Intangible Assets	-231 122	-231 122	0
Proceeds on Disposal of Property, Plant and Equipment	407 123	407 123	0
Profit on Sale of Land	344 862	344 862	0
Decrease / (Increase) in Long-term Receivables	43 345	0	43 345
New Loans raised	1 833 729	1 833 729	0
Loans repaid	-286 837	-286 837	0
Cash and Cash Equivalents at the beginning of the year	80 699 141	80 699 141	0
Cash and Cash Equivalents at the end of the year	29 624 537	29 624 537	0

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**NOTE : 1**

**Determining the cash receipts./ payments**

**Revenue and expenditure from statement of performance**

	AFS		RESTATED		ADJUSTMENT
	Revenue	Expenditure	Revenue	Expenditure	Rev./Exp.
Revenue and expenditure from statement of performance	154 081 972	-139 824 447	154 980 858	-139 955 924	-767 210
Correction of Errors	-	-	-	-157 488	157 488
Investment income	-4 346 241	-	-4 346 241	-	-
Gain on disposal of property, plant and equipment	38 439	-	-344 123	-	382 562
Loss on sale of PPE	-	-	-	382 562	-382 562
Depreciation	-	23 294 149	-	23 294 149	-0
Contribution to provisions – non-current	-	286 459	-	1 542 858	-1 256 399
Operating Lease Revenue Straightlined	-	-	22 157	-	-22 157
Increase in staff leave	-	-	-	351 476	-351 476
Contribution to bad debt provision	-139 760	9 215 993	-	9 715 469	-639 235
Interest paid	-	634 248	-	1 044 926	-410 678
	0	149 634 411	150 312 452	-103 781 972	-3 289 668
Decrease in inventories	-	-15 812	-	-15 812	-0
(Increase)/decrease in Exchange Transactions	-6 739 189	-	-7 667 288	-	928 099
(Increase)/decrease in Non-Exchange Transactions	-17 007 468	-	-18 554 898	-	1 547 430
(Decrease)/increase in conditional grants and receipts	-7 893 925	-	-7 893 925	-	-
Increase/(Decrease) in Creditors	-	-1 217 357	-	-1 577 471	360 114
	117 993 829	-107 626 768	116 196 341	-105 375 255	-454 025

Revenue	Expenditure	Rev./Exp.
-898 686	131 476	-767 210
2 835 935	-2 522 748	313 187
1 937 249	-2 391 272	-454 023

Correction of Errors iro 2009/10 which affected the surplus for the year

Rates raised in respect of 2009/10	-632 943
Recalculation of Landfill Site Liability at 30 June 2010	827 185
Acknowledgement of Primedia as an Operating Lease/Asset at 30 June 2010	-36 753
See Notes 34.2 and 34.4 above.	157 488

Contribution to provisions – non-current

	Long Service Awards	Landfill Sites	Total	
Calculation of Movement/Long Term Liability				
2011	446 882	5 059 136	5 506 018	
2010	403 770	3 559 390	3 963 160	
	43 112	1 499 746	1 542 858	-1 542 858

Long Services Awards - Actuarial loss excluded from last year AFS

Landfill site assets reduced due to revaluation

Interest on Landfill sites last year reversed

-1 256 391

Loss on sale of PPE

The profit on the land sales was set of against the losses on the sale of PPE last year which is now separated under Revenue and Expenditure causing the difference of R382 562 in both sections

382 562

-382 562

0

Operating Lease Revenue Straightlined

The straightlining of revenue from Operating Leases was previously excluded from Non-Cash Items

Operating Lease Asset 30/06/2010 258 860

Operating Lease Asset 30/06/2011 -236 703

22 157

Increase in staff leave

Increase in staff leave was previously included under creditors and excluded from Non-Cash Items

-351 476

Contribution to bad debt provision

VAT Debtors Impaired. Not part of the Statement of Financial Performance figure previously disclosed

-639 235

Interest paid

Restated to the amount per the Statement of Financial Performance

-410 678

(Increase)/decrease in Exchange Transactions

Output VAT transferred out to Creditors

-929 152

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	2012 R	2 011 R
<u>(Increase)/decrease in Non-Exchange Transactions</u>		
Rates raised on schools previously excluded from rateable valuation (2009/10)		-632 943
Rates raised on schools previously excluded from rateable valuation (2010/11)		-914 252
Amount with credit balance transferred from Debtors to Creditors		-235
		-1 547 430
<u>Increase/(Decrease) in Creditors</u>		
Increase in staff leave was previously included under creditors and excluded from Non-Cash Items		-351 476
CORE Note 34.7 - Payables		-8 636
		-360 112
<b>35 CASH GENERATED BY OPERATIONS</b>		
Surplus for the Year	(918 426)	15 024 735
Adjustment for:		
Depreciation and amortization	29 180 816	23 294 115
Contribution to Provisions - Non-Current	620 581	1 542 858
Increase in staff leave	139 281	351 476
Impairment losses - Provision for doubtful debts (Trade receivables)	8 108 347	9 715 469
Impairment losses - PPE	94 976	
Operating lease income accrued due to straightlining	153 093	22 157
Profit on sale of PPE		(344 123)
Loss on sale of PPE		382 561
Investment Income	(2 555 786)	(4 346 241)
Interest Paid	664 232	1 044 926
Correction of errors		(157 488)
<b>Operating surplus before working capital changes</b>	<b>35 487 114</b>	<b>46 530 445</b>
Increase in Inventory	(96 739)	(15 813)
(Increase)/Decrease in Trade receivables from exchange	(1 789 657)	(2 445 072)
(Increase)/Decrease in Trade receivables from non exchange transactions	9 876 627	(18 554 898)
(Increase)/Decrease in VAT	6 595 779	(5 222 216)
Increase/(Decrease) in Conditional Grants and Receipts	(279 147)	(7 893 925)
Increase/(Decrease) in Creditors	(3 107 102)	(1 577 471)
<b>Cash generated by / (utilised in) operations</b>	<b>46 686 875</b>	<b>10 821 050</b>

See Note 34.8 under Correction of Errors for the restatement of the Cash Flow Statement from the Indirect to the Direct method.

## 36 NON-CASH INVESTING AND FINANCING TRANSACTIONS

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2011/12 financial year.

## 37 FINANCING FACILITIES

The municipality did not have any Financing Facilities available at any time during the two financial years.

## 38 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities (See Note 15)	1 255 479	1 546 892
Used to finance Property, Plant and Equipment - at cost	(1 255 479)	(1 546 892)
<b>Cash invested for Repayment of Long-term Liabilities</b>	<b>-</b>	<b>-</b>

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

## 39 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

### 39.1 Unauthorised Expenditure

To management's best of knowledge no Unauthorised Expenditure was incurred during the year under review.

Reconciliation of Unauthorised Expenditure:

Opening balance	36 053 232	12 739 495
Unauthorised Expenditure current year		36 053 232
Approved / written off by Council	(36 053 232)	(12 739 495)
Unauthorised Expenditure awaiting authorisation	<b>-</b>	<b>36 053 232</b>

### 39.2 Fruitless and Wasteful Expenditure

To management's best of knowledge instances of note indicating that Fruitless and Wasteful Expenditure was incurred during the year under review were not revealed.

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2 011 R
Reconciliation of Fruitless and Wasteful expenditure:		
Opening balance	48 772	-
Fruitless and Wasteful Expenditure current year	13 845	48 772
Approved / written off by Council	(48 772)	-
Fruitless and Wasteful Expenditure awaiting condonement	<u>13 845</u>	<u>48 772</u>

Disclosures	Disciplinary Steps / Criminal Proceedings
Interest on late payment - Various Creditors	None

## 39.3 Irregular Expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:

Opening balance	25 985 204	1 600 000
Irregular Expenditure current year	341 057	24 385 204
Condoned or written off by Council	(25 985 204)	-
Irregular Expenditure awaiting condonement	<u>341 057</u>	<u>25 985 204</u>

Disclosures	Disciplinary Steps / Criminal Proceedings
Various awards to persons in service of the state (2012 : R341 057)	

## 40 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

### 40.1 Contributions to organised local government - SALGA

Opening Balance	302 046	-
Council Subscriptions	363 422	310 555
Amount Paid - current year		(8 509)
Amount Paid - previous years	(302 046)	-
Balance Unpaid (included in Creditors)	<u>363 422</u>	<u>302 046</u>

### 40.2 Audit Fees

Opening Balance	139 545	0
Current year Audit Fee	3 138 423	2 607 198
Amount Paid - current year	(2 731 147)	(2 467 653)
Amount Paid - previous years	(263 865)	-
Balance Unpaid (included in Creditors)	<u>282 956</u>	<u>139 545</u>

### 40.3 VAT

The net of VAT input payables and VAT output receivables are shown in Note 6. All VAT returns have been submitted by the due date throughout the year.

### 40.4 PAYE, Skills Development Levy and UIF

Opening Balance	(458 934)	(0)
Current year Payroll Deductions	8 069 719	6 530 069
Amount Paid - current year	(7 610 785)	(6 989 003)
Balance Unpaid (included in Creditors)	<u>(0)</u>	<u>(458 934)</u>

### 40.5 Pension and Medical Aid Deductions

Opening Balance	-	436 409
Current year Payroll Deductions and Council Contributions	5 902 817	5 861 919
Amount Paid - current year	(5 902 817)	(5 861 919)
Amount Paid - previous years		(436 409)
Balance Unpaid (included in Creditors)	<u>-</u>	<u>-</u>

### 40.6 Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

	Total	Outstanding up to 90 days	Outstanding more than 90 days
30 June 2012			
Mbele N	2 295	273	2 022
Total Councillor Arrear Consumer Accounts	<u>2 295</u>	<u>273</u>	<u>2 022</u>
30 June 2011			
Mbele N	4 059	423	3 636
Total Councillor Arrear Consumer Accounts	<u>4 059</u>	<u>423</u>	<u>3 636</u>

### 40.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

No known matters existed at reporting date.

# UMZIMVUBU LOCAL MUNICIPALITY

2012  
R

2011  
R

## 40.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Department	Date	Successful Tenderer	Reason	Amount
Community Services (Waste Management)	Jan-12	Transkei Yamaha	Stihl BrushCutters where purchased from Transkei Yamaha and in order for them not to loose warranties and guarantees in case of damages when being serviced, so this is an exceptional case where it is impractical to follow official SCM processes. (Refer to ULM SCM policy 36 (1)(v))	48 479.45
Prefer to service machines with agents.				
Corporate Support Services	Sep-11 May-12	Dimension Data Mergate Hotel	Only service provider for data networks in the area. All quotations above R200 000. Mergate Hotel	133 714.91 259 175.00
2 Occasions during the financial year for reasons of urgency, sole supplier and preferred supplier amounting to R392889.91				
Developmental Services(SPU)	Jul-11	Rob Pollock	Due to our threshold of request for quotes (R10000-R30000) Rob Pollock is the only professional service provider that is available in our database (so this is an exceptional case where it is impractical to follow official SCM processes. (Refer to ULM SCM policy 36 (1)(v))	23 176.66
Professional photographer on Supply Chain Management database.				
Technical Services	Nov-11	Barloworld Equipment	Barloworld Equipment is the single provider of Caterpillar Equipment (refer to ULM SCM policy 36 (1)(a) (ii))	24 250.37
Prefer to service TLB with agents.				
Traffic and Emergency Services	Jul-11 Mar-12 Mar-12 May-12	FG Uniforms FG Uniforms Lexis Nexis EMCOM Wireless (PTY) LTD	Only suppliers for Traffic Officers uniforms and traffic books. EMCOM Wireless (PTY) LTD supplied us with Sonnenchein SB6000/6 radio's for Traffic, so it the only service provider that supply with can supply us with same batteries and that is available in our database (so this is an exceptional case where it is impractical to follow official SCM processes. (Refer to ULM SCM policy 36 (1)(v))	45 860.55 30 868.92 15 701.82 21 349.92
4 Occasions during the financial year for reasons of urgency, sole supplier and preferred supplier amounting to R113781.21				

# UMZIMVUBU LOCAL MUNICIPALITY

	2012 R	2011 R
<b>41 COMMITMENTS FOR EXPENDITURE</b>		
<b>41.1 Capital Commitments</b>		
Commitments in respect of Capital Expenditure:		
- <b>Approved and Contracted for:-</b>	<b>11 395 981</b>	<b>39 232 021</b>
Infrastructure	9 260 430	39 232 021
Community	1 318 632	
Buildings	816 919	
<b>Total Capital Commitments</b>	<b>11 395 981</b>	<b>39 232 021</b>
This expenditure will be financed from:		
Government Grants	11 395 981	39 232 021
	<b>11 395 981</b>	<b>39 232 021</b>
Commitments for the acquisition of Property, Plant and Equipment	<b>11 395 981</b>	<b>39 232 021</b>

## 41.2 Lease Commitments

Finance Lease Liabilities and Non-cancellable Operating Lease Commitments are disclosed in Notes 14 and 15.

## 41.3 Other Commitments

The municipality has entered into a contract with Ducharme Consulting Services for the assistance of asset verification, compilation of the Assets Register, restructuring of Chart of Accounts and the compilation of Annual Financial Statements for 6 months, which will give rise to a total charge of R1 513 760.00.

The municipality has entered into a contract with Gijima Mbasa JV Amazizi Amahle for Security Services, Mt. Frere Offices for 2 years, which will give rise to a charge of R2 020 057.20 of actual project expenditure payable on a monthly basis.

The municipality has entered into a contract with SLK Security and Cleaning Services for the provision of security services for Mt. Ayliff Offices for the next 2 years, which will give rise to an annual charge of R1 682 567.04.

The municipality has entered into a contract with Vodacom Pty Ltd for cellphones for both councillors and employees for two years.

The municipality has entered into a contract with REVCO for the management and collection of Municipal debts for Mt. Frere and Mt. Ayliff at 17.1% commission based on collection.

The municipality has entered into a contract with Fleet Africa for leasing of vehicle on FML agreement for 5 years reviewed after three years, which will give rise to a charge of approximately R8 067 005.50.

The municipality has entered into a contract with Konica Minolta for leasing of printing and fax machines for 36 months reviewed, which will give rise to a charge of approximately R1 200 000.00.

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

		2012 R	2011 R
<b>42 FINANCIAL INSTRUMENTS</b>			
<b>42.1 Classification</b>			
<b>FINANCIAL ASSETS:</b>			
In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):			
<u>Financial Assets</u>	<u>Classification</u>		
<b>Receivables from exchange transactions</b>			
Refuse	Loans and receivables	81 235	162 447
Other Debtors	Loans and receivables	489	271 596
VAT Debtors	Loans and receivables	23 244	194 302
<b>Receivables from non-exchange transactions</b>			
Assessment Rates Debtors	Loans and receivables	498 321	2 959 613
Payments made in Advance	Loans and receivables	-	47 636
Government Subsidy Claims	Loans and receivables	-	13 144 913
Sundry Deposits	Loans and receivables	2 769	-
Sundry Debtors	Loans and receivables	-	41 158
Interest Charges	Loans and receivables	20 293	-
<b>Bank, Cash and Cash Equivalents</b>			
Call Deposits	Available for sale	29 365 014	26 356 205
Bank Balances	Available for sale	5 193 844	3 268 333
Cash Floats and Advances	Available for sale	-	-
Other Cash Equivalents	Available for sale	677	-
<b>SUMMARY OF FINANCIAL ASSETS</b>			
<b>Loans and Receivables</b>			
Consumer Debtors	Assessment Rates	498 321	2 959 613
Consumer Debtors	Refuse	81 235	162 447
Consumer Debtors	Other Debtors	489	271 596
Consumer Debtors	VAT Debtors	23 244	194 302
Other Debtors	Government Subsidy Claims	-	47 636
Other Debtors	Recoverable Works	-	13 144 913
Other Debtors	Sundry Deposits	2 769	-
Other Debtors	Sundry Debtors	-	41 158
Other Debtors	Interest Charges	20 293	-
		<u>626 350</u>	<u>16 821 667</u>
<b>Available for Sale:</b>			
Bank Balances and Cash	Bank Balances	5 193 844	3 268 333
Bank Balances and Cash	Other Cash Equivalents	877	-
Bank Balances and Cash	Call Deposits	29 365 014	26 356 205
		<u>34 559 735</u>	<u>29 624 537</u>
<b>Total Financial Assets</b>		<u>35 186 085</u>	<u>46 446 204</u>
<b>FINANCIAL LIABILITIES:</b>			
In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows			
<u>Financial Liabilities</u>	<u>Classification</u>		
<b>Long-term Liabilities</b>	Financial Liabilities a -		
Finance Lease Liabilities	Amortised Cost	936 730	1 255 479
<b>Creditors</b>			
Trade Creditors	Amortised Cost	7 404 059	11 043 426
Payments received in Advance	Fair value	973 484	481 528
Retentions	Amortised Cost	348 968	114 725
Long Services Awards (Short term)	Amortised Cost	134 107	110 794
Sundry Deposits	Amortised Cost	40 535	34 087
Rental Deposits	Amortised Cost	22 703	22 703
Other Creditors	Amortised Cost	10 966	235
Accrued leave	Amortised Cost	2 055 302	1 916 021
Value Added Tax (Output)	Amortised Cost	55 491	289 917
<b>Current Portion of Long-term Liabilities</b>			
Finance Lease Liabilities	Amortised Cost	318 749	291 413

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>SUMMARY OF FINANCIAL LIABILITIES</b>		
<b>Financial Liabilities at Amortised Cost:</b>		
Long-term Liabilities		
Finance Lease Liabilities	936 730	1 255 479
Creditors	7 404 059	11 043 426
Creditors	348 968	114 725
Creditors	134 107	110 794
Creditors	40 535	34 087
Creditors	22 703	22 703
Creditors	10 966	235
Creditors	2 055 302	1 916 021
Creditors	55 491	289 917
Current Portion of Long-term Liabilities	318 749	291 413
Payments received in advance	973 484	481 528
<b>Total Financial Liabilities</b>	<b>12 301 094</b>	<b>15 560 328</b>

**42.2 Fair Value**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

**Cash and short-term investments**

The carrying amount approximates fair value because of the short maturity of those instruments.

**Loan receivables/payables**

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and, therefore, the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed-interest-rate instruments are fair-valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Trade and other receivables/payables**

The fair value of trade and other payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the the current payment ratio's of the municipality's debtors.

**Other Financial Assets and Liabilities**

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

**Long-term Liabilities**

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

In accordance with IAS 39.09 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements to approximate their fair values on 30 June 2012, as a result of the short-term maturity of these assets and liabilities.



**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012		2011	
	R		R	
	30 June 2012		30 June 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	R	R	R	R
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>	626 350	626 350	16 821 667	16 821 667
Consumer Debtors	104 968	104 968	628 346	628 346
Other Debtors	521 382	521 382	16 193 321	16 193 321
<b>Available for Sale</b>	34 559 735	34 559 735	29 624 537	29 624 537
Bank Balances and Cash	34 559 735	34 559 735	29 624 537	29 624 537
<b>Total Financial Assets</b>	<b>35 186 085</b>	<b>35 186 085</b>	<b>46 446 204</b>	<b>46 446 204</b>
	30 June 2012		30 June 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	R	R	R	R
<b>FINANCIAL LIABILITIES</b>				
<b>Designated as FVTPL:</b>	12 301 094	12 301 094	15 560 328	15 560 328
<b>Amortised Cost</b>				
Unsecured Bank Facilities:	936 730	936 730	1 255 479	1 255 479
- Finance Lease Liabilities	936 730	936 730	1 255 479	1 255 479
Trade and Other Payables:	11 364 364	11 364 364	14 304 849	14 304 849
- Creditors	10 072 131	10 072 131	13 531 908	13 531 908
- Payments received in advance	973 484	973 484	481 528	481 528
- Current Portion of Long-term Liabilities	318 749	318 749	291 413	291 413
<b>Total Financial Liabilities</b>	<b>12 301 094</b>	<b>12 301 094</b>	<b>15 560 328</b>	<b>15 560 328</b>
<b>Total Financial Instruments</b>	<b>22 884 991</b>	<b>22 884 991</b>	<b>30 885 876</b>	<b>30 885 878</b>
<b>Unrecognised Gain / (Loss)</b>		-		-

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables at Fair Value. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

There were no reclassifications of financial assets during the financial period.

#### 42.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2012.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 15, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 17 and the Statement of Changes in Net Assets.

#### Gearing Ratio

	2012	2011
	R	R
The gearing ratio at the year-end was as follows:		
Debt	1 255 479	1 546 892
Bank, Cash and Cash Equivalents	34 559 735	29 624 537
Net Debt	<b>35 815 214</b>	<b>31 171 429</b>
Equity	<b>245 438 419</b>	<b>246 356 844</b>
<b>Net debt to equity ratio</b>	<b>14.59%</b>	<b>12.65%</b>

Debt is defined as Long- and Short-term Liabilities.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

The gearing ratio for 2010/11 was restated as the previous calculation did not include the finance lease taken up by the municipality during the 2010/11 financial year.